

Audit

Report



OFFICE OF THE INSPECTOR GENERAL

FUNDS CONTROL AT THE OFFICE OF CIVILIAN
HEALTH AND MEDICAL PROGRAM OF THE
UNIFORMED SERVICES

Report No. 97-065

January 10, 1997

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Department of Defense

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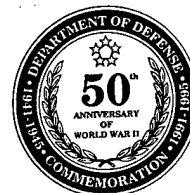
CHAMPUS
MIPR
OCHAMPUS

RAMS

Civilian Health and Medical Program of the Uniformed Services
Military Interdepartmental Purchase Request
Office of Civilian Health and Medical Program of the Uniformed
Services
Resource Accounting Management System



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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January 10, 1997

**MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (HEALTH
AFFAIRS)**
**DIRECTOR, OFFICE OF CIVILIAN HEALTH AND
MEDICAL PROGRAM OF THE UNIFORMED
SERVICES**

**SUBJECT: Audit Report on Funds Control at the Office of Civilian Health and
Medical Program of the Uniformed Services (Report No. 97-065)**

We are providing this audit report for review and comment. This is one of two reports on the Office of Civilian Health and Medical Program of the Uniformed Services financial management. We considered comments on a draft of this report in preparing the final report. As a result of management comments, we modified report Finding A and changed the title to more accurately represent the report content.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we deleted draft Recommendation A.1. Management comments on Recommendations B.1. and B.2.b. were not responsive and we continue to believe those actions are needed. We request that management reconsider its position regarding the unresolved recommendations and provide comments on the final report by March 7, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Judith I. Padgett, Audit Project Manager, at (703) 604-9508 (DSN 664-9508). Appendix C lists the distribution for this report. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

January 10, 1997

Funds Control at the Office of Civilian Health and Medical Program of the Uniformed Services

Executive Summary

Introduction. The Office of Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS) records and reports the financial information for the Civilian Health and Medical Program of the Uniformed Services. In FY 1995, the OCHAMPUS managed and accounted for approximately \$4 billion of the \$12.3 billion Defense Health Program. The OCHAMPUS is also responsible for verifying the availability of funds before obligating funds for the Civilian Health and Medical Program of the Uniformed Services expenses.

Audit Objectives. The overall audit objectives were to assess OCHAMPUS financial internal controls and compliance with laws and regulations. Specifically, we determined whether the OCHAMPUS financial records adhered to financial accounting guidance, and whether the financial accounting systems adequately supported the financial reports, statements, and funds availability. This report discusses the financial accounting systems support for funds availability.

Audit Results. The OCHAMPUS financial accounting system, the Resource Accounting Management System, was not adequate to maintain accurate financial records to ensure funds availability. Specifically, the OCHAMPUS accounting system did not accurately record the reimbursable obligation authority in the Allotted Reimbursable Program account. In addition, the OCHAMPUS reported a negative balance of \$1.07 billion in the Allotted Reimbursable Program at September 30, 1995. As a result, the OCHAMPUS financial records were not reliable (Finding A).

The OCHAMPUS also reported negative Funds With Treasury balances of \$193,957,694 for FY 1994 and \$297,705,647 for FY 1995. As a result, Antideficiency Act violations may have occurred (Finding B).

Summary of Recommendations. We recommend that the Director, OCHAMPUS, develop and implement procedures for accurately recording reimbursable obligation authority. We further recommend that the Assistant Secretary of Defense (Health Affairs) establish policy for the OCHAMPUS to accept Military Interdepartmental Purchase Requests for direct citation of funds, require advance payment for health care services for non-DoD agencies, and initiate an investigation of a potential Antideficiency Act violation.

Management Comments. The Office of the Assistant Secretary of Defense (Health Affairs) concurred with recommendations to develop and implement procedures to accurately record the reimbursable obligation authority. Health Affairs partially concurred with the recommendation to accept Military Interdepartmental Purchase Requests for direct citation of funds and proposed alternative actions. It partially concurred because of the potentially significant adverse ramifications their acceptance could have on disbursements and obligations. In addition, Health Affairs nonconcurred with the recommendation to require advance payment from non-DoD agencies because to do so would violate U.S. Treasury regulations. See Part I for a discussion of management comments and Part III for the complete text of management comments.

Audit Response. The Health Affairs comments on recording reimbursement authority were responsive. The Health Affairs comments regarding the investigation of the potential Antideficiency Act violation associated with a negative Fund Balance With Treasury and the requirement for advance payment from non-DoD agencies were not responsive. We disagree that automatic reimbursement authority precludes an Antideficiency Act violation because the Fund Balance With Treasury is a fund account rather than an obligation authority account. In addition, we disagree that advance payment from non-DoD agencies is prohibited by Department of the Treasury financial regulations. We request that the Assistant Secretary of Defense (Health Affairs) provide completion dates for the proposed alternative to directly citing funds and reconsider the unresolved issues and provide additional comments in its response to the final report by March 7, 1997.

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Part I - Audit Results

Audit Background

Executive Agent. The Office of Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS) operates under the direction of the Office of the Assistant Secretary of Defense (Health Affairs). OCHAMPUS is designated the executive agent to manage and supervise the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). In FY 1995, OCHAMPUS was responsible for recording and reporting approximately \$4 billion of the \$12.3 billion Operation and Maintenance funds for the Defense Health Program. CHAMPUS is a program of medical benefits for eligible active duty dependents, retired service members and their dependents, and surviving dependents of deceased active duty personnel in the Military Departments. CHAMPUS also includes care provided to beneficiaries of four non-DoD agencies: the National Oceanic and Atmospheric Administration, the Office of Health and Safety (U.S. Coast Guard), the Public Health Administration, and the Veterans Administration.

Operation and Maintenance Fund. The OCHAMPUS accounted for two types of costs under the Operation and Maintenance fund, including costs for administering CHAMPUS and CHAMPUS health care expenses. In FY 1995, the Office of the Assistant Secretary of Defense (Health Affairs) allocated about \$79 million to OCHAMPUS for the administrative costs of managing CHAMPUS. For the CHAMPUS health care costs, the Military Departments and non-DoD agencies reimbursed OCHAMPUS about \$3.9 billion.

Resource Accounting Management System. The OCHAMPUS uses the Resource Accounting Management System (RAMS) to record and report financial information. Data are input into RAMS through manual entry, uploading of computer files, and interfacing with the related management systems. The RAMS includes general ledger accounts for both budgetary and proprietary accounts. The OCHAMPUS staff commits (administratively reserves funds to anticipate and plan for fund distribution for expenses) and obligates funds in RAMS. Obligations are orders placed, contracts awarded, and services received that the Federal Government is legally required to pay.

Antideficiency Act. The Antideficiency Act was codified into United States Code, title 31, and its provisions were incorporated into a number of sections of that title. The sections of the public law in title 31 are still referred to collectively as the Antideficiency Act in regular usage and in this report.

Guidance Contained in United States Code. United States Code, title 31, section 1341, "Limitations on Expending and Obligating Amounts," states that an officer or employee of the Federal Government may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund.

United States Code, title 31, section 1517(a), "Prohibited Obligations and Expenditures," states that an officer or employee of the Federal Government may not make or authorize an expenditure or obligation exceeding the amount permitted by regulations (availability of appropriations under an administrative subdivision of funds).

Audit Objectives

The overall audit objectives were to assess OCHAMPUS financial internal controls and compliance with laws and regulations. Specifically, we determined whether the OCHAMPUS financial records adhered to financial accounting guidance, and whether the financial accounting systems adequately supported the financial reports, statements, and funds availability. This report discusses the financial accounting systems support for funds availability. Appendix A discusses the audit scope and methodology. Appendix B provides details on related prior audits and other reviews.

Finding A. Recording Reimbursable Obligation Authority

The OCHAMPUS accounting system (RAMS) did not accurately record the reimbursable obligation authority in the Allotted Reimbursable Program (account 4582). In addition, the OCHAMPUS reported a negative balance of \$1.07 billion in account 4582 at September 30, 1995. The OCHAMPUS did not implement internal controls to ensure that valid and reliable data were obtained and recorded in the financial records. As a result, OCHAMPUS financial records were not reliable.

DoD Guidance on Control of Funds

DoD has developed and implemented the following guidance for the administrative control of funds and appropriations.

DoD Directive 7200.1. DoD Directive 7200.1, "Administrative Control of Appropriations," May 4, 1995, regulates fund control for all DoD Components. It requires DoD Components to establish and maintain adequate systems of accounting and positive control of appropriations and other funds. The Directive also implements the Antideficiency Act. The Antideficiency Act prohibits authorizing or creating obligations in excess of amounts available.

DoD Manual 7220.9-M. DoD Manual 7220.9-M, "DoD Accounting Manual," chapter 24, "Installation-Level Budgetary Resources," October 1983, prescribes the standards for recording transactions in installation-level budgetary accounts. All OCHAMPUS budget execution transactions should be accomplished in accordance with the guidance.

DoD Regulation 7000.14-R. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (DoD Financial Regulation), volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1995, establishes policy and procedures for the administrative control of funds. Additionally, the regulation establishes procedures for DoD Components to use in identifying, investigating, and reporting violations of the Antideficiency Act.

Establishing Reimbursable Obligation Authority

Each year, the Military Departments prepare a Military Interdepartmental Purchase Request (MIPR) to establish the maximum amount of appropriated Operation and Maintenance funding the Military Departments will reimburse OCHAMPUS for CHAMPUS health care costs. The MIPRs serve the purpose

Finding A. Verifying Reimbursable Obligation Authority

of establishing the reimbursable obligation authority that OCHAMPUS has on behalf of the Military Departments. The Military Departments reimbursed OCHAMPUS about \$3.8 billion in FY 1995.

The non-DoD agencies have a memorandum of understanding with OCHAMPUS that requires them to reimburse OCHAMPUS for the amounts billed. The memorandums of understanding, along with orders for CHAMPUS services, serve the purpose of establishing the reimbursable obligation authority that OCHAMPUS has on behalf of the non-DoD agencies. The non-DoD agencies reimbursed OCHAMPUS about \$120 million in FY 1995.

Recording the Reimbursable Obligation Authority

The OCHAMPUS accounting system (RAMS) did not accurately record the reimbursable obligation authority in the Allotted Reimbursable Program (account 4582). In accordance with DoD Manual 7220.9-M, the reimbursable obligation authority should be recorded in account 4582, a budgetary account. The Manual states that account 4582 "represents the balance of current period, specifically apportioned reimbursable program authority allotted."

For account 4582, OCHAMPUS should record the dollar value of MIPRs from the Military Departments as credits because the MIPRs are the amounts to be "...automatically apportioned upon receipt and acceptance..." provided for in the fund authorization documents. The OCHAMPUS should record debits to account 4582 when specific orders (notices of CHAMPUS services provided) required OCHAMPUS to obligate funds and subsequently pay for CHAMPUS services. The recording actions would result in account balance fluctuations throughout the months and at the end of reporting periods; however, the balance in the account should not be negative.

The transactions to record the reimbursable obligation authority did not function properly. Account 4582 did not register the results of the transactions to record the reimbursable obligation authority. The account had a negative balance, and the amount recorded remained the same at month end for 9 months of FY 1995. The accounts, other than account 4582, that the transactions affected had balances that were not negative; however, the balances were not verified for accuracy.

Reporting the Reimbursable Obligation Authority

The OCHAMPUS reported a negative balance of \$1.07 billion in the Allotted Reimbursable Program (account 4582) at September 30, 1995, and a negative balance at the end of all 12 months in that fiscal year.

Finding A. Verifying Reimbursable Obligation Authority

Account 4582 should not have a negative balance because it represents funds availability. A negative balance in the account would indicate that more funds were expended than available, which could cause an Antideficiency Act violation.

Internal Controls Over Reimbursable Program

The financial records were not accurate because OCHAMPUS did not implement internal controls to ensure that valid and reliable data were obtained and recorded in RAMS. DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, establishes that the management of DoD organizations must implement and maintain controls to reasonably ensure that valid and reliable financial data are obtained, maintained, and fairly disclosed in reports. The controls help to ensure that management is getting valid and reliable information about whether programs are operating properly.

Specific internal control standards are prescribed in the Comptroller General publication, "Standards for Internal Controls in the Federal Government," (Standards for Internal Controls), June 1, 1983. The internal control standards include, but are not limited to, reasonable assurance and recording transactions and events.

Reasonable Assurance. The OCHAMPUS did not take action to provide reasonable assurance that the RAMS accurately showed funds availability. The Standards for Internal Controls state that internal controls should provide reasonable assurance that the system will accomplish its objectives.

Account 4582 had a negative balance for all 12 months of FY 1995. OCHAMPUS management did not effectively review the financial records and reports to promptly identify and correct the negative balance in account 4582 and the transactions that were causing it. Further, they did not determine whether other account balances affected by the transactions were accurate. According to the accounting staff, OCHAMPUS requested a system change to correct the transaction problem in RAMS. However, OCHAMPUS did not furnish a record of the request and, as of May 23, 1996, had not corrected the transaction problem.

Recording Transactions and Events. The OCHAMPUS did not have procedures to ensure that the reimbursable program was recorded and reported in accordance with DoD guidance. Internal control standards require that transactions and significant events, such as accounting for the reimbursable program, be promptly recorded and properly classified. That control must be in place to ensure that the financial records accurately reflect the financial position of the entity.

Finding A. Verifying Reimbursable Obligation Authority

The OCHAMPUS accounting system did not properly record the receipt of MIPRs and non-DoD orders and the corresponding fund obligations. Therefore, the balance in account 4582 did not accurately reflect the balance of the reimbursable program throughout FY 1995.

Providing Needed Financial Information

As a result of the internal control weaknesses, OCHAMPUS financial records were not reliable. OCHAMPUS could not use the financial records to verify the availability of funds for the reimbursable program. The FY 1995 financial records did not provide assurance that OCHAMPUS had valid information with which to manage the authorized reimbursable program. DoD Financial Regulation, volume 14, chapter 10, "Violations--Causes, Prevention, and Correction," states that establishing a funds control system is essential to ensure that funds are available for all obligations before they are incurred.

Recommendations and Management Comments

Deleted and Renumbered Recommendations. As a result of management comments, we deleted references in the draft report to a potential Antideficiency Act violation, withdrew Recommendation A.1., and renumbered draft report Recommendations A.2. and A.3.

A. We recommend that the Director, Office of Civilian Health and Medical Program of the Uniformed Services:

1. Research the effect of the transactions for account 4582 on other accounts and implement the system change to the Resource Accounting Management System to correctly record future transactions.

2. Develop and implement procedures to provide reasonable assurance that the accounting system meets objectives and to accurately report reimbursable obligation authority throughout each accounting period.

Management Comments. The Office of Health Affairs concurred with the recommendations. It stated that OCHAMPUS staff has researched the effects of improper reporting in the cited account and has requested a system change to correct the transaction to record and report reimbursable obligation authority. The action will be finalized in the second quarter, FY 1997.

Finding B. Funds With Treasury Balance and Disbursements

The OCHAMPUS reported negative Funds With Treasury (account 1013) balances of \$193,957,694 for FY 1994 and \$297,705,647 for FY 1995. The negative balances occurred because OCHAMPUS disbursed funds for CHAMPUS health care costs before receiving reimbursement from the Military Departments and non-DoD agencies. As a result, Antideficiency Act violations may have occurred.

Reimbursement Procedures

Reimbursement by the Military Departments. The Military Departments prepared and sent MIPRs to OCHAMPUS based on the amounts they expected to reimburse OCHAMPUS for CHAMPUS health care costs. The recipient of a MIPR may accept the MIPR for reimbursement, direct citation of funds, or a combination of reimbursement and direct citation. Under a MIPR for reimbursement, OCHAMPUS provides the service using its funds and bills the Military Departments for reimbursement. Under a MIPR with a direct citation of funds, OCHAMPUS uses the funds of the source of the MIPR to provide services.

In FYs 1994 and 1995, the MIPRs that were provided to OCHAMPUS from the Military Departments gave OCHAMPUS obligation authority, which OCHAMPUS accepted as reimbursable orders. OCHAMPUS cited the reimbursable obligation authority it received from the Military Departments and recorded the disbursements¹ in Funds Disbursed at the time it received CHAMPUS billings from the health care contractors and fiscal intermediaries (fiscal intermediaries are contractors that process CHAMPUS claims for health care received within a particular region). OCHAMPUS accounting personnel then billed the Military Departments for the health care costs. The Military Departments reimbursed OCHAMPUS by check or electronic fund transfer.

Reimbursement by the Non-DoD Agencies. The non-DoD agencies used a memorandum of understanding, an agency agreement, to provide OCHAMPUS with reimbursable obligation authority. At the time it received CHAMPUS billings from the contractors, OCHAMPUS cited the obligation authority that the memorandums of understanding gave, and recorded the disbursements in Funds Disbursed. OCHAMPUS accounting personnel then billed the

¹ OCHAMPUS is not a disbursing organization. The Fitzsimons Army Medical Center Finance Office makes the OCHAMPUS disbursements.

Finding B. Funds With Treasury Balance and OCHAMPUS Disbursements

non-DoD agencies for the health care costs. The non-DoD agencies reimbursed OCHAMPUS by check or electronic fund transfer. United States Code, title 31, section 1535, states:

Payment shall be made promptly by check on the written request of the agency or unit filling the order. Payment may be in advance or on providing the goods or services ordered . . .

Funds With Treasury Balance

The OCHAMPUS reported negative Funds With Treasury (account 1013) balances of \$193,957,694 for FY 1994 and \$297,705,647 for FY 1995. The balance in Funds With Treasury is calculated by adding the appropriated funding received during the fiscal year with the ending balance in Funds Collected (account 1011) and subtracting the ending balance in Funds Disbursed (account 1012). The calculation of the balances for Funds With Treasury for FYs 1994 and 1995 are shown in the following table.

Calculating the Funds With Treasury Balance		
	<u>FY 1994</u>	<u>FY 1995</u>
Appropriated Funds	\$ 75,972,000	\$ 79,180,000
Funds Collected	3,287,359,512	3,233,722,145
Funds Disbursed	<3,557,289,206>	<3,610,607,792>
Funds With Treasury	<\$ 193,957,694>	<\$ 297,705,647>

Reimbursement of Costs

At the end of FYs 1994 and 1995, Funds Disbursed exceeded Funds Collected because OCHAMPUS paid for the CHAMPUS health care costs before it received reimbursement from the Military Departments and non-DoD agencies. DoD Financial Regulation, volume 14, chapter 1, "Administrative Control of Appropriations," states, "...the disbursement of amounts in excess of the Treasury (cash) balance on a revolving fund is a potential violation of the Antideficiency Act."

Funds Disbursed, totaling approximately \$3.6 billion in both FYs 1994 and 1995, included funds OCHAMPUS disbursed for the costs of administering CHAMPUS and paying CHAMPUS health care costs. Funds Collected, totaling approximately \$3.3 billion in FY 1994 and \$3.2 billion in FY 1995,

Finding B. Funds With Treasury Balance and OCHAMPUS Disbursements

included funds OCHAMPUS collected through recouping overpayments of health care claims and by billing the Military Departments and non-DoD agencies for CHAMPUS health care costs.

The appropriated funds (\$76 million in FY 1994 and \$79 million in FY 1995) that OCHAMPUS received from the Office of the Assistant Secretary of Defense (Health Affairs) through direct allotment for administering the CHAMPUS program were not adequate to cover the disbursements made for CHAMPUS costs. The Military Departments and non-DoD agencies reimbursed OCHAMPUS after the disbursements for CHAMPUS costs.

Direct Citation of Funds and Advance Payments

Acceptance of the MIPRs for direct citation of funds would allow OCHAMPUS to use the Military Departments' funds instead of seeking reimbursement. Advance payments from the non-DoD agencies would also provide OCHAMPUS with funds before payment of CHAMPUS costs. The direct citation of funds and advance payments would provide assurance that the Funds With Treasury was adequate to pay CHAMPUS costs.

Potential Antideficiency Act Violation

The negative balance in Funds With Treasury is a potential Antideficiency Act violation. DoD Financial Regulation, volume 14, chapter 3, provides the steps management should take when a potential violation of the Antideficiency Act is identified.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Director, Office of Civilian Health and Medical Program of the Uniformed Services, investigate the potential Antideficiency Act violation following the procedures outlined in DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, chapter 3.

Management Comments. The Office of Health Affairs nonconcurred with the recommendation. Health Affairs stated that a potential Antideficiency Act violation did not occur because OCHAMPUS has reimbursable authority that is always equal to reimbursable obligations received.

Finding B. Funds With Treasury Balance and OCHAMPUS Disbursements

Audit Response. The Office of Health Affairs comments are not responsive. We disagree that a potential Antideficiency Act violation could not occur because OCHAMPUS has reimbursable authority. The Fund Balance With Treasury account does not represent obligation authority, it represents funds. According to the Statement of Federal Financial Accounting Standards, No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993, an entity should increase the Fund Balance With Treasury account when it receives appropriations, allocations, or reimbursements. An entity should decrease the Fund Balance With Treasury when it disburses funds to pay liabilities; purchases assets, goods, and services; or transfers to or reimburses other entities or the Treasury. The guidance goes on to define reimbursements as sums received as payment or advance payment for goods or services furnished either to the public or to another federal government account. OCHAMPUS procedures created a situation in which it disbursed more funds than were available in the Fund Balance With Treasury account. We do not believe that Health Affairs has the authority to refuse to investigate the issue identified in this report. We request Health Affairs reconsider its response to Recommendation B.1., initiate the required investigation, and provide additional comments to the final report.

B.2. We recommend that the Assistant Secretary of Defense (Health Affairs):

a. Establish policy for the Office of Civilian Health and Medical Programs of the Uniformed Services to accept Military Interdepartmental Purchase Requests for direct citation of funds.

Management Comments. The Office of Health Affairs partially concurred with the recommendation. Health Affairs stated that directly citing funds could adversely affect control of cross disbursements and unmatched obligations, a special interest item of the Under Secretary of Defense (Comptroller). As an alternative, Health Affairs proposes creating a work group to select an appropriate mechanism to fund the CHAMPUS program. The work group would select a funding mechanism within 90 days of its formation.

Audit Response. Although Health Affairs partially concurred, its planned actions meet the intent of the recommendation. The planned actions should identify an acceptable financial practice that will preclude Antideficiency Act violations. Because the issues were outside the scope of this audit, we are unable to comment on specific conditions at OCHAMPUS and other DoD disbursing offices that may adversely affect control of cross disbursements or lead to unmatched obligations. Admittedly, directly citing funds may create an administrative inconvenience; however, that practice does not violate Antideficiency Act statutes, as disbursing funds from a negative position could. We request that Health Affairs, in its response to the final report, provide a specific date by which it will form the work group.

b. Renegotiate non-DoD memorandums of understanding to require advance payment for health care services based on the estimated annual requirements of the agencies.

Finding B. Funds With Treasury Balance and OCHAMPUS Disbursements

Management Comments. The Office of Health Affairs nonconcurred with the recommendation. Health Affairs stated that the United States Treasury Financial Manual, section 2515.10, "Payments to Other Appropriations and Funds as Reimbursements or Advances," July 1994, provides the following applicable guidance regarding payments by one government agency to another.

...reimbursements for goods and services provided by one agency should be made promptly after delivery on the basis of invoices rather than by advance payments.

Health Affairs pointed out that DoD has no regulation that modifies the Treasury guidance. According to the Health Affairs interpretation, advance payments from other Government agencies to reimburse for goods and services would violate United States Treasury Financial Regulations; therefore, renegotiating the non-DoD memorandums of understanding was not necessary.

Audit Response. Management comments are not responsive. We disagree with the Health Affairs interpretation of U.S. Treasury guidance on reimbursements by one agency for the benefit of another. We coordinated our response through the Office of General Counsel. Use of advance payments for intragovernmental orders does not violate Federal regulations or U.S. Treasury guidance, as summarized below.

Office of Management and Budget Guidance. The Office of Management and Budget guidance, which takes precedence over agency-level regulations, encourages use of advance payments to avoid Antideficiency Act violations. Specifically, Office of Management and Budget Circular No. A-34, "Instructions on Budget Execution," November 1994, section 23.5,² states that the Antideficiency Act prohibits overexpenditure of funds as well as overobligations. Section 23.5 explains that obligations may be incurred against intragovernmental receivables but not to disburse into a negative position. The section further states,

...it is the preferred practice, for the ordering agency, whenever practicable, to advance cash to the performing agency at or before the time of ordering goods or services. This is extremely important in those cases where the performing agency does not have sufficient working capital to pay bills in anticipation of reimbursements.

Treasury Guidance. We reviewed the Treasury guidance and concluded that section 2515.10 does not conflict with the Office of Management and Budget guidance because the Treasury guidance does not prohibit advance payments. Section 2515.10 discusses advance payments in the context of legal requirements, which include required advance payments and authorized advance payments. The section also discusses preference that advance payments not be used but does not prohibit them.

We request Health Affairs to reconsider its position on Recommendation B.2.b. and provide additional comments in response to the final report.

²In the Office of Management and Budget Circular No. A-34 December 1995 revision, the citation is section 11.5.

Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed the OCHAMPUS process for recording and reporting financial information totaling about \$4 billion for FY 1995. We reviewed FYs 1994 and 1995 trial balances, FY 1995 cost center reports, and general ledger account data for FY 1995. We also reviewed and evaluated financial internal controls as they applied to our audit objectives. To assess internal controls we:

- o interviewed OCHAMPUS personnel,
- o analyzed DoD and OCHAMPUS internal management control policies and procedures,
- o reviewed OCHAMPUS annual statements of assurance for FYs 1994 and 1995, and
- o reviewed the results of the OCHAMPUS self-evaluation of RAMS, June 26, 1996.

Use of Computer-Processed Data. We relied on OCHAMPUS FY 1994 and FY 1995 computer-processed general ledger data and financial reports generated by RAMS. We did not validate the reliability of the system that generated the data because we limited our use of the data to perform tests of the internal controls, to perform analytical tests, and to review the procedures used to process financial transactions. The RAMS contained negative balances or balances that could not be supported.

Audit Period and Standards. We performed this financial-related audit from May 1995 through June 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD.

Methodology

To evaluate the OCHAMPUS process for recording and reporting financial information for CHAMPUS, we:

- o identified transaction cycles and prepared flowcharts for each cycle,
 - o performed analytical procedures on FYs 1994 and 1995 trial balances,
- and

o determined the effects of OCHAMPUS procedures on specific line items of the FYs 1994 and 1995 trial balances.

Organizations and Individuals Visited or Contacted

We visited or contacted individuals and organizations within DoD and the Wisconsin Physicians Service. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987,* requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

The Management Control Program is management's plans, objectives, and procedures to achieve operational management control and financial internal control. The following is a discussion of OCHAMPUS financial internal controls.

Scope of Review of Management Control Program. We reviewed the adequacy of the OCHAMPUS management controls over financial management, accounting, and accounting systems. Specifically, we reviewed the OCHAMPUS internal controls over the financial systems, disbursements, Government billing, and reimbursements. We also reviewed the results of OCHAMPUS self-evaluations of internal controls.

Adequacy of Management Controls. We identified material internal control weaknesses for OCHAMPUS as defined by DoD Directive 5010.38. The OCHAMPUS internal controls over the financial systems, disbursements, Federal Government billing, and reimbursements were not adequate to ensure that the OCHAMPUS financial system recorded transactions consistently with DoD general ledger requirements and that OCHAMPUS complied with Antideficiency Act requirements. All recommendations, if implemented, will improve the OCHAMPUS financial systems, disbursements, Government billing, and reimbursements. A copy of the report will be provided to the senior official responsible for management controls in the Office of the Assistant Secretary of Defense (Health Affairs).

*DoD Directive 5010.38 has been revised as, "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the Directive.

Appendix A. Audit Process

Adequacy of Management's Self-Evaluation. The OCHAMPUS management identified the OCHAMPUS financial systems, disbursements, and Government billing as assessable units. They rated those assessable units as either low or medium risk. On June 26, 1995, the OCHAMPUS Resource Management Division completed a self-evaluation of the RAMS. In its self-evaluation, OCHAMPUS management identified departures from accrual accounting and from recording accounts payable; however, OCHAMPUS management did not consider the departures material and initiated system change requests to correct the departures. OCHAMPUS management did not identify all the weaknesses included in this report because management did not compare account balances to DoD guidance to identify negative balances.

Appendix B. Prior Audits and Other Reviews

During the past 5 years, the Office of the Inspector General, DoD, has published two reports related to OCHAMPUS financial management.

Inspector General, DoD, Report 96-092, "Payments to the Civilian Health and Medical Program of the Uniformed Services Providers," April 3, 1996, stated that while payments made by OCHAMPUS for outpatient services in the southeastern region were generally valid, the amounts paid were not always justified. It also stated that the OCHAMPUS management control program needed improvement because the auditors identified material weaknesses in the management controls over reimbursement of provider claims for outpatient services. The report recommended that OCHAMPUS establish policies and procedures to validate services that CHAMPUS health care providers performed by making periodic on-site reviews of patient medical records on a random basis. The report also recommended that OCHAMPUS revise policy to prohibit using miscellaneous codes for outpatient services when current procedural codes are available, and limit reimbursing outpatient services to the technical portion of the allowable rates. Management concurred with the recommendations and stated that its primary vehicle for implementing the recommendations is the expansion of the DoD managed health care program.

Inspector General, DoD, Report 92-115, "Civilian Health and Medical Program of the Uniformed Services Claims Processed and Paid By Fiscal Intermediaries," June 30, 1992, stated that the performance of the fiscal intermediaries did not consistently meet the accuracy and timeliness standards for processing and paying CHAMPUS claims. The report also stated that OCHAMPUS did not adequately monitor the fiscal intermediaries' performance on contract requirements for evaluation of duplicate payments, accounts receivable, and sanctioned providers. The report recommended that the Director, OCHAMPUS, revise criteria for incentives to match contract standards; develop and follow a comprehensive written surveillance plan to monitor the fiscal intermediaries' performance; and require the contracting officer's representatives to verify and record, during site visits, corrective actions taken on identified deficiencies. The Office of the Assistant Secretary of Defense (Health Affairs) agreed to develop and implement a comprehensive written surveillance plan to monitor the performance of the fiscal intermediaries and to improve followup on correction of deficiencies.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Health Affairs)
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Director, Office of Civilian Health and Medical Program of the Uniformed Services

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

General Accounting Office

National Security and International Affairs Division

Technical Information Center

Health, Education, and Human Services

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on National Security, Committee on Appropriations

House Committee on Government Reform and Oversight

House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight

House Committee on National Security

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Part III - Management Comments

Assistant Secretary of Defense (Health Affairs) Comments

Final Report
Reference



HEALTH AFFAIRS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

NOV 19 1996

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTENTION: Mr. Robert J. Ryan, Audit Program Director

SUBJECT: Comments on Draft Audit Reports on the Financial Management for the Office of
the Civilian Health and Medical Program of the Uniform Services

Thank you for the opportunity to review and comment on two draft audit reports performed
by your office (Project numbers 6LA-2002 and 6LA-2002.01). Separate responses are attached for
each draft audit report.

The Health Affairs comments indicate concurrence or nonconcurrence with the finding and
each recommendation, comments on any material management control weakness, as well as a
description of all applicable corrective actions taken or planned.

The Health Affairs Point of Contact for this action is Colonel William A. Bozo, (703) 695-
3331.

Edward D. Martin
Edward D. Martin, M.D.
Principal Deputy Assistant Secretary

Attachments:
As Stated

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Comments to
Project No.
6LA-2002

RESPONSE TO THE DRAFT DoD(IG) REPORT ON POTENTIAL
ANTIDEFICIENCY ACT VIOLATIONS AT THE
OFFICE OF THE CIVILIAN HEALTH AND MEDICAL PROGRAM OF
THE UNIFORMED SERVICES

PROJECT NO. LA-2002.01

19 NOV 1996

PART 1- AUDIT RESULTS

Finding A. Recording Reimbursable Obligation Authority

The OCHAMPUS accounting system (RAMS) did not accurately record the reimbursable obligation authority in the Allotted Reimbursable Program (account 4582). In addition, the OCHAMPUS reported a negative balance of \$1.07 billion in account 4582 at September 30, 1995. The OCHAMPUS did not implement internal controls to ensure that valid and reliable data were obtained and recorded in the financial records. As a result, OCHAMPUS financial records were not reliable, which could lead to Antideficiency Act violations.

OASD(HA)/OCHAMPUS Response: Partial Concur We concur that reimbursable obligation authority in General Ledger Account (GLA) 4582 (Allotted Reimbursement Program) reflected a negative balance of \$1.07 million as of September 30, 1995. The negative amount represented the monthly activity for the first three months of FY95. As part of the RAMS automated month end closing cycle, an entry should have been made to debit GLA 4580 (Allotments Received) and credit account 4582 (Allotted Reimbursable Program, Current Period) with the total of orders accepted plus other reimbursable obligations. The entries for the first three months were not made because of an error in the RAMS software that did not recognize the difference between the calendar year and the fiscal year (this occurs only in the first three months). The entries for the remaining nine months of FY95 were entered correctly. Before the general ledger accounts were closed for FY95, a manual journal entry should have been made to debit GLA 4580 and credit GLA 4582 for \$1.07 billion. This manual entry was not made, causing the \$1.07 billion negative balance in account 4582. If the manual entry had been accomplished, GLA 4582 would have shown a zero balance. For FY96, the necessary manual journal entry was accomplished. Additionally, a system change request was initiated in October 1996 to correct the RAMS software for FY97, and eliminate the need for the manual journal entry.

We concur that OCHAMPUS did not implement internal controls to ensure that account 4582 did not have a negative balance.

We non-concur that the negative balance in GLA 4582 could lead to a potential Antideficiency Act violation in this instance because the FY95 Fund Authorization, SD Form 477, that OCHAMPUS received from Washington Headquarters Service, Director of Budget and

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reference to
potential
Antidefi-
ciency Act
violation

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Finance, states that OCHAMPUS has automatic reimbursement authority ("Reimbursable Authority is automatically apportioned in the amount of reimbursements received."), not funded reimbursable authority. With automatic authority, OCHAMPUS has reimbursable authority that is always equal to reimbursable obligations received.

The following RAMS General Ledger Accounts (GLAs) reflect the FY95 total reimbursable obligations or customer orders. The totals of these accounts agrees with total in GLA 4222 Customer Orders Accepted:

GLA #4821.0	Undelivered Orders-Reimbursable	\$ 87,407,543.44
GLA #4920.0	Accrued Exp. Unpaid - Reimbursable	\$ 237,676,973.24
GLA #4941.0	Accrued Exp. Paid-Reimbursable	\$3,547,794,443.12
GLA #4942.0	Accrued Exp-Refunds Due-Reimb.	\$7,987,587.78
Total		\$3,880,866,547.58

Because OCHAMPUS had automatic reimbursement authority in FY95, the reimbursable authority in FY95 was equal to \$3,880,866,547.58. Therefore, in our opinion, the potential for an Antideficiency Act violation did not exist.

Finding B. Funds With Treasury Balance and Disbursements

The OCHAMPUS reported negative Funds With Treasury (GLA 1013) balances of \$193,957,694 for FY94 and \$297,705,647 for FY95. The negative balances occurred because OCHAMPUS disbursed funds for CHAMPUS health care costs before receiving reimbursement from the Military Departments and non-DoD agencies. As a result, Antideficiency Act violations may have occurred.

OASD(HA)/OCHAMPUS RESPONSE: Partial Concur We concur that OCHAMPUS reported negative funds balances with Treasury during FY94 and FY95. This occurred for two reasons: first, a change in accounting policy directed by Washington Headquarters Service (WHS) and second, compliance with existing US Treasury Financial Management Policies regarding payment for reimbursable goods and services.

In October of 1992, an official in WHS Budget and Finance verbally directed OCHAMPUS to stop reporting reimbursable obligation authority in GLA 1013 (Fund Balance With Treasury) but to continue reporting direct obligation authority. The reason for the change was to eliminate duplicate reporting (i.e., by OCHAMPUS and the three Military Departments) for the same funds. OCHAMPUS modified its final FY92 reports accordingly and resubmitted them with the WHS requested changes. The modification to OCHAMPUS reporting was required because the Military Departments also reported "Funds With Treasury" referencing the same funds that had been reported by OCHAMPUS. When OCHAMPUS also reported these funds in GLA 1013, the amount reported was twice the actual value of the Funds with Treasury GLA 1013. OCHAMPUS complied with WHS guidance, stopped reporting the funds balances in October 1992, and adjusted future reports accordingly. The negative balance for FY95 would not

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have occurred if OCHAMPUS had not followed the WHS guidance. As stated earlier, a potential Antideficiency Act violation did not occur, due to a lack of reimbursable authority. With automatic authority, OCHAMPUS has reimbursable authority that is always equal to reimbursable obligations received. Therefore, it is our position that it is inappropriate to investigate a potential antideficiency violation at this time.

Current US Treasury Regulations prohibit collection of reimbursements until after payment for goods and services. According to Section 2515.10 of The United States Treasury Financial Manual states as follows: "Payments for Reimbursable Goods and Services - These are payments made by one account as a reimbursement to another account for goods and services that have been provided on a reimbursable basis. Reimbursements for goods and services provided by one agency to another should be made promptly after delivery on the basis of invoices rather than by advance payments." OCHAMPUS followed the US Treasury guidance because DoD has not yet published the section of the DoD Financial Management Regulation that covers reimbursable transactions. We assume that when the DoD Guidance is published it will not conflict with the US Treasury policy that OCHAMPUS was following and continues to follow.

PART II RECOMMENDATIONS FOR CORRECTIVE ACTION

Recommendation A. We recommend that the Director, Office of Civilian Health and Medical Program of the Uniformed Services:

1. Investigate the potential Antideficiency Act violation following the procedures outlined in DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, chapter 3.

Response. Non-concur. A potential Antideficiency Act violation did not occur, due to a lack of reimbursable authority. The FY95 Fund Authorization, SD Form 477, that OCHAMPUS received from Washington Headquarters Service, Director of Budget and Finance, states OCHAMPUS has automatic reimbursement authority ("Reimbursable Authority is automatically apportioned in the amount of reimbursements received.") not funded reimbursable authority. With automatic authority, OCHAMPUS has reimbursable authority that is always equal to reimbursable obligations received. Therefore, it is our position that it is inappropriate to investigate a potential antideficiency violation at this time.

2. Research the effect of the transactions for account 4582 on other accounts and implement the system change to the Resource Accounting Management System to correctly record future transactions.

Response. Concur. We have researched the effects of improper reporting of GLA 4582 Allotted Reimbursable Program and find that it does not effect any accounts other than GLA 4580 Allotments Receivable. A manual transaction corrected the problem with GLA 4582 in FY96. (An automated systems change request has been initiated to correct the problem in FY97.)

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Renumbered
as Recommendation
A.1.

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Renumbered
as Recommendation
A.2.

3. Develop and implement procedures to provide reasonable assurance that the accounting system meets objectives and to accurately report reimbursable obligation authority throughout each accounting period.

Response. Concur. An automated systems change request has been initiated to correct RAMS that will ensure accurate reporting of reimbursable obligation authority. This change will be finalized in the second quarter of FY97.

Recommendation B.1. We recommend that the Director, Office of Civilian Health and Medical Program of the Uniformed Services investigate the potential Antideficiency Act violation following the procedures outlined in DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 14, chapter 3.

Response. Non-concur. A potential Antideficiency Act violation did not occur, due to a lack of reimbursable authority. The FY95 Fund Authorization, SD Form 477, OCHAMPUS received from Washington Headquarters Service, Director of Budget and Finance, states OCHAMPUS has automatic reimbursement authority ("Reimbursable Authority is automatically apportioned in the amount of reimbursements received,"), not funded reimbursable authority. With automatic authority, OCHAMPUS has reimbursable authority that is always equal to reimbursable obligations received. Therefore, it is our position that it is inappropriate to investigate a potential antideficiency violation at this time.

Recommendation B.2. We recommend that the Assistant Secretary of Defense (Health Affairs):

a. Establish policy for the Office of Civilian Health and Medical Programs of the Uniformed Services to accept Military Interdepartmental Purchase Requests for direct citation of funds.

Response. Partially concur. We do not concur with the use of direct citation Military Interdepartmental Purchase Request (MIPR) because of the potentially significant adverse ramifications this could have on the control of cross disbursements and unmatched obligations that are a special interest item of the Under Secretary of Defense (Comptroller).

We recognize that the use of reimbursable MIPRs may not be the most appropriate mechanism to fund the CHAMPUS program. As an alternative, we recommend the creation of a work group (with membership from OASD (Health Affairs), OCHAMPUS, OUSD (Comptroller), Office of the Inspector General, DoD, and the Military Departments) to propose the appropriate mechanism to fund the CHAMPUS program. The work group should complete it's work within 90 days and should consider, at a minimum, the following options:

1. Reimbursable MIPR from Military Departments
2. Direct Cite MIPR from Military Departments
3. Direct Fund Citations w/o MIPR from Military Departments
4. Direct Service Funding from MOUs from Military Departments
5. Direct Fund Allocation to OCHAMPUS

4

Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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INTERNET DOCUMENT INFORMATION FORM

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Inspector General, Department of Defense
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Arlington, VA 22202-2884

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